DFID Department for International Development

An agenda of reform

Trading for Peace

Achieving security and poverty reduction through trade in natural resources in the Great Lakes area

MARCH 2009

Trading for Peace – An agenda of reform

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It does not represent the official views or policy of any of the institutions involved in the project.

All reports and documents can be found at
www.dfid.gov.uk/mdg/aid/trading-for-peace.asp

Annexes describing in detail activities of Phase 2 of Trading for Peace are available in English and French, in a separate volume

Foreword

In October 2006, COMESA, DFID, and USAID embarked on a research project "Trading for Peace" which sought to deepen understanding of the links between trade in natural resources, governance and stability in the Great Lakes Region. The project was initiated at a time when there were clear indications that the situation in the Great Lakes Region was changing on two important fronts. Peace processes had fostered transitions leading to elections in both Burundi and the Democratic Republic of Congo. Many observers felt a new culture of dialogue was evolving, setting the stage for a broader stabilisation in the region. We saw the changing political dispensation as a window of opportunity to initiate activities and dialogue toward policy development aimed ultimately at promoting sustainable development and regional economic integration. The first Trading for Peace report summarising the results of this research phase was published in October 2007

The evidence of the research showed that fair and equitable trade can provide tools for poverty eradication and help to consolidate peace in countries that are emerging from conflict. Trading for Peace has demonstrated a fundamental point – that fairer trade does not have to wait for peace but it can contribute towards building peace. Through a series of cross-border meetings which have brought together traders, officials, civil society and the private sector to better understand each other and learn how a Simplified Trade Regime for small scale traders can really help their livelihoods. Trading for Peace has begun to build collaboration at the community level and among different groups across borders. As communities find that they can trade with each other easily and in a mutually profitable manner, they begin to value the relationships they have developed and work towards maintaining them – and they are not likely to want the trade disrupted by conflicts and nor will they want their trade relationships and networks formsed to be destroyed.

Building on this programme, the project has mapped out work for a third phase. COMESA, DFID and USAID will build this from a strong empirical foundation, which will help consolidate further research, tools and approaches for intervention at local, national and regional levels. We hope that you will find report this useful in bringing you up-to-date with Trading for Peace, and in laying out a future programme of work - an agenda of reform.

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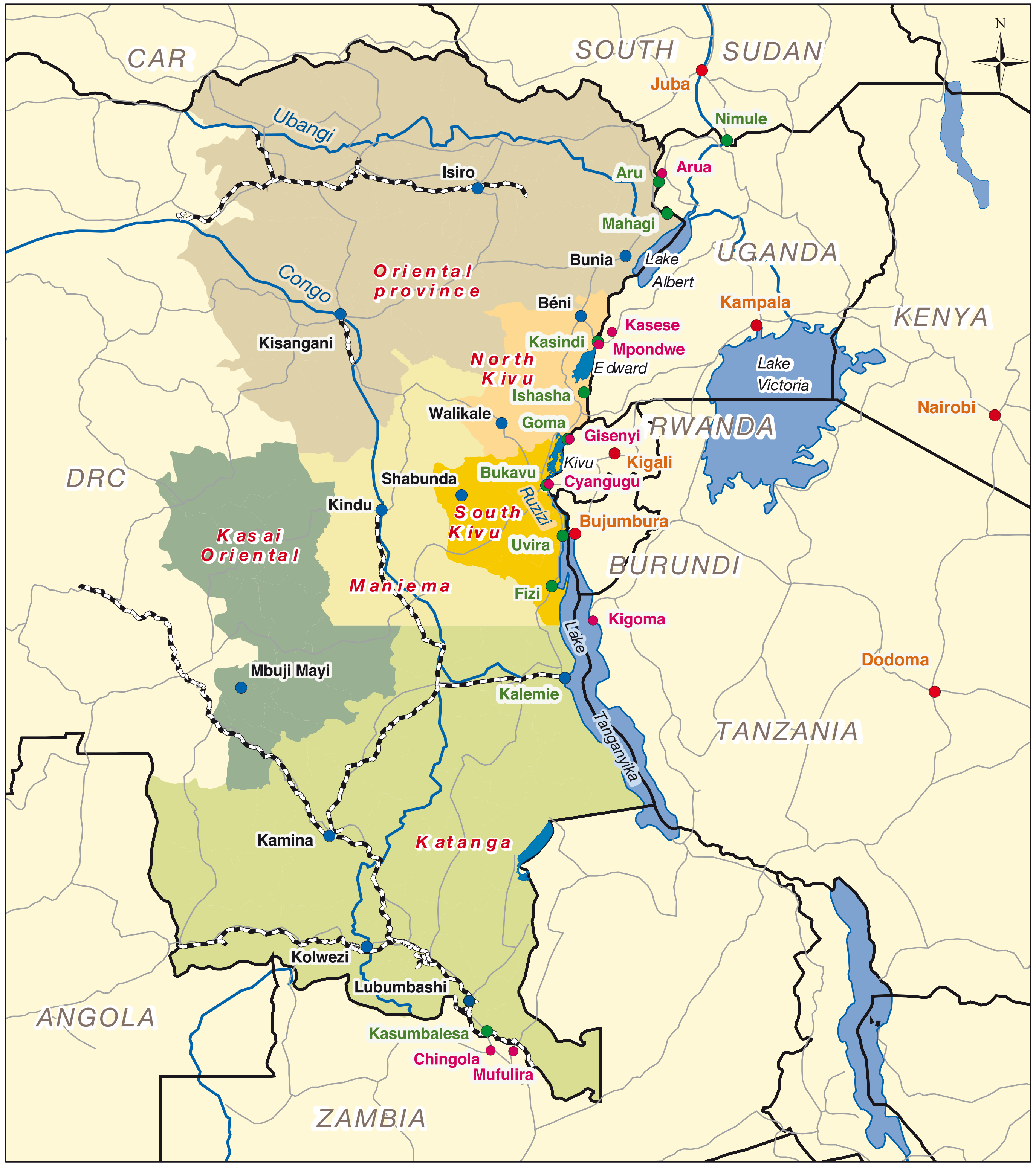
Main trading routes on the border of eastern and southern DRC



Provinces
Capital towns
Main production or market places
Major border points - DRC
Major border points - Other
Railways
Main roads

Map designed by Antoine Schmitt, Forests Monitor

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1. Introduction

Trading for Peace (TfP) is a programme that aims to understand and promote the role of trade in peacebuilding and poverty reduction in the Great Lakes area, the region of Africa that covers Burundi, the Democratic Republic of Congo (DRC), Rwanda, Uganda, and Zambia. Beginning in late 2006 with detailed grassroots research into the nature and role of trade in the region TfP, taken forward by donors and regional economic communities such as DFID, USAID and COMESA together with local and international partners such as Pole Institute and International Alert, has now evolved into a platform of cross-border cooperation which can initiate real change.

The research in and around the DRC found that, while trade in the country and the region is often fraudulent, it offers great potential for reducing poverty. In order to fully harness this potential, however, it is important that good governance is developed to protect and promote the growth of legitimate trade. A second phase of work from late 2007 to early 2009 therefore sought to build networks of traders and officials along both sides of the borders in eastern DRC and to start programmes of training, investment in equipment at border posts, discussions about trading reforms at the local level as well as research activities on a range of challenges of cross-border development.

The next phase of the programme will seek to build on this in order to turn our vision of trade as a pillar of peacebuilding and poverty reduction into reality.

This will mean governments, officials, traders, the public and private sectors, research organisations, civil society and national, regional and local institutions working together across borders on a shared agenda: an agenda of reform, leading to easier and more equitable trading throughout the Great Lakes Region, creating an environment in which everyone has a stake in mutual cooperation with the aim of securing prosperity and building peace.

2. The context: Conflict and natural resources

The Trading for Peace programme is underpinned by solid research which seeks to understand the realities of trade on the ground in the Great Lakes Region. At the time of the initial research, a common understanding about the exploitation of natural resources in the eastern DRC was that it was all illegal, and that most of the proceeds were "plundered" by neighbouring states; that revenues were used entirely for illegal activities; and that conflict in the region was about access to natural resources.

The research findings challenged this received wisdom. They showed clearly that while a very high proportion of traded natural resources was not recorded, and was, to some extent, exported illegally, the reason for this was economically rational for traders themselves: to avoid formal, legal, arbitrary and illegal taxes in an effort to maximise returns to the individual.

Recognition of this fact led to a shift in thinking and expected policy responses. The previous paradigm, based on the experiences of dealing with "conflict resources" in countries like Angola or Sierra Leone, had been that it is important to ban exports of natural resources from conflict-bound areas in order to reduce conflict. Apart from the fact that sanctions and embargos tend to hurt the poorest most, the research findings instead suggest a strong positive policy direction: strengthen and support legitimate trade in natural resources and other commodities, and hence begin to marginalise illegitimate trade, making it less easy, less profitable and less desirable.

The research then also developed the thesis that better, more orderly trade across the DRC's borders would help to bring peace by increasing peaceful contact between hostile and fragmented communities. Many of the obstacles to trade and peace in the Great Lakes Region are identical. The widespread prejudice is that every trading partner is hostile unless proved otherwise, especially if he or she comes from another country or is thought to do so. Perceived unfairness in trade relationships not only reduces the perceived benefits of trade for at least one side, but also drives both sides to seek protection and redress in ways which in the Great Lakes Region, with its history of extreme violence, tend to be violent themselves. People who mistrust each other, who do not recognise each other's rights and who do not perceive a net positive value in a peaceful relationship will exchange gunfire rather than goods.

In this context, everything that helps to build confidence across borders, between contesting communities, and between traders and officials – what might be described as a project against ignorance – serves the cause of peace as well as improving trade.

It is important that the analysis of trade patterns and economic opportunities does not ignore the realities of war and suffering. After the first Trading for Peace report was published in October 2007, there was criticism that we had an over-optimistic view about trends in the DRC and the Great Lakes Region as a whole. We still hold that these trends continue to be positive. Upsurges of fighting between government forces, rebels and militia groups have indeed caused major and growing human misery in eastern Congo at the ends of 2006, 2007 and 2008. But there are fewer and smaller areas of conflict overall, and the "zones of tranquillity", in which fighting has ceased and reconstruction can begin, are without doubt increasing in size and spreading.

Events in early 2009, with the sudden end of rebellion in eastern DRC and the joint Rwandan-Congolese military operation against the Rwandan FDLR, appear to have put in motion a major reconfiguration of forces which may well change realities on the ground in a fundamental way. If the hopes for lasting peace expressed by the DRC and Rwandan governments are realised, this will create new opportunities to address some of the longer-term issues and engage the peoples of the Great Lakes Region in a process of cooperation and reconstruction.

3. The reform agenda

Trade is a necessary catalyst for building peace in the Great Lakes Region, whose populations are extremely interdependent. Investing in the creation of an economic and political environment that enables legitimate cross-border trade to flourish for the wider benefit pays dividends not just for the traders, but for governments and communities throughout the region. The immediate dividend is economic, but the long-term reward is peaceful co-existence.

This process will involve a long-term commitment from all parties. In some cases it will not just be a question of reforming systems – though that is at the heart of the programme – but of changing cultures. Generations of mismanagement and of arbitrary use of state power for personal or communal gain have left a deep scar on generations of traders and the wider society. At the same time, most of the region's infrastructure has at one time or another been destroyed by war; and in eastern DRC even today, basic needs of reconstruction remain unmet, even though the steps needed to meet them are clear to see.

These steps go far beyond trade policy reform. They involve changing people's livelihoods, through economic reform, through the reconstruction of infrastructure and services, through better governance and security and through easier access to the financial system. These are the issues that Trading for Peace now seeks to address.

Finding the right solutions involves listening to those who have the problems, thinking about the issues raised creatively and then making connections between different policy fields and levels. One reason why many people in the region are so vulnerable to abuse through natural resource exploitation and trade is the "a-legal" nature of the value chain and the powerlessness of people at its bottom. Alternative livelihoods and the possibility of moving up the value chain are needed to provide income and security. Many young men may have become hardened and averse to the slow returns from agriculture, but women are still active farmers – and traders. How then can agriculture in the region be strengthened – and with it trade in foodstuffs? What opportunities can there be for those men whose link with agriculture appears to be permanently severed? And how can the role of women be supported?

The scope for alternative economic activities and for adding value in mining and also in agriculture is heavily constrained by a lack of energy supplies. So how can power-generating capacity be increased? Small-scale hydro-projects perhaps? Trading in energy across the DRC's eastern borders? Or sharing joint energy resources with neighbouring countries?

Another barrier which prevents poor people from emerging out of poverty is the inaccessibility of financial services; for example, on the one hand, artisanal cassiterite miners can earn $10, $20 or more dollars per day – but cut off from infrastructure and services, there is nothing much else for them to do but to spend it; there is nowhere safe to build up savings for investment. And for a young man to acquire the basic tools and connections to become an artisanal miner and to gain access to a mine, he will almost certainly need to borrow in cash or kind, through a pretty tough pre-financing regime.

Similar constraints apply to other sectors of economic activity such as small-scale farming or trading. Can access to finance for poor miners be improved? Or for poor farmers? Or for women traders?

In order to understand the challenges involved, Trading for Peace has over the past year moved beyond its first phase of general research into trade patterns and behaviour towards more specific consideration of individual themes of key importance to the future of trade in the region.

In a series of trade fora, each held in a different border area between the DRC and its eastern neighbours, stakeholders from both sides of the border discussed the following:

- Financial institutions and money flows (Bujumbura, Burundi, 10-13 June 2008), organised by COMESA and Gradis
- Trade, security and agriculture (Goma, DRC, 8-11 July 2008), organised by COMESA and the Pole Institute
- Timber trade and livelihoods (Kasese, Uganda, 20-25 October 2008), organised by COMESA, the Kabarole Research Centre and the Bwera Information Centre
- Problems of energy in the Great Lakes Region (Gisenyi, Rwanda, 27-28 January 2009), organised by DFID and the Pole Institute.

Trading for Peace commissioned thematic studies to inform these questions and to build a wider and deeper set of strategies which could then be discussed with practitioners in the respective fields at the thematic trade fora. From these events, some key learning points have emerged which can be used by policy-makers and investors in the region to help establish a flourishing trading environment.

The dynamism of the private sector has been clear to see at each forum. Business people and their associations appreciate the chance to discuss common problems and seek solutions together. The value of linking them up with COMESA and other regional bodies to work with the tools and instruments available to them and to work with governments to address these issues should not be underestimated. This kind of networking should also inspire the business community in the Great Lakes Region to mobilise its own considerable financial means.

The following sections spell out the main conclusions of the thematic studies and the discussions around them with cross-border stakeholders in this phase of Trading for Peace, allowing them through these discussions to develop strategic policy options and implementable reforms.

Full reports from the fora are available in a separate volume of Annexes.

3.1 Improving access to finance

If natural resource exploitation is to help to lift people out of poverty, then the artisanal and other workers at the extractive end of the value chain need to have a fair share of the proceeds. Analysis of the returns to individual workers for different value chains – gold, diamonds, cassiterite and timber – has shown that earnings are extremely low, but in comparison with other options, they appear to offer a good cash return – up to $10 or more per day for the actual miners and foresters. But still only a relatively small percentage of the financial benefits of natural resource exploitation returns to the communities living and working at the resource-extraction sites. In addition to legitimate costs which are present in any value chain – transport, processing, handling and legitimate taxes and charges – unofficial charges and taxes illegitimately siphon off much of the remaining value, reducing further the financial benefits that reach the lowest end of the chain.

Financial infrastructure in much of the DRC in general is undeveloped and this exacerbates the problem. Few people have personal bank accounts, there is very little finance available for traders, and throughout the extractive industries traders, miners and loggers tend to be dependent on pre-financing provided by DRC-based domestic and foreign-owned comptoirs (trading houses) and large timber traders in Uganda. The effect this is to tie miners and loggers to single purchasers, who provide equipment but often purchase product at below-market prices. These monopolies may be enforced militarily.

Miners and loggers wholly dependent on daily cash income may find themselves deeply in debt as they struggle to repay loans or buy out the pre-financed goods. They pay very high prices for food and other subsistence goods in the mining and logging areas which tend to be supplied by the same traders who buy the natural resources and who therefore set prices for both in ways which maximise their own earnings. This creates a strong tendency to spend cash as it comes in – on relaxation and consumption, rather than to save and accumulate. Miners and loggers are thus often permanently in debt and vulnerable to shocks such as price changes.

Offering improved financial services and infrastructure in these areas would help to reduce poverty and strengthen the primary sectors. Financial deepening mitigates risk. Saving, insurance and loan facilities allow individuals to smooth consumption needs and can protect households and individuals from drastic action when faced with shocks and variable incomes. Financial deepening also makes it easier for low-income individuals and small businesses to participate in markets, to save and to take out loans to buy equipment, and to acquire trade financing where needed. These points apply equally to workers in non-trade sectors, particularly in agriculture.

For example, if miners were able to use small loans collectively or accumulated savings to purchase equipment such as pumps and tools or to rent a pit, they could choose to sell their extracted goods to the highest bidder, assuming that there is competition at the point of sale. They could also pay for a trusted intermediary, perhaps the nominated leader of a miners' association, to travel to a trading firm to sell their goods for a higher price. Both options would change the value chain's power structure and help to channel more of the final price to its poorest stakeholders. Access to a transactional account could also help miners smooth their variable incomes and safeguard themselves from theft.

Providing traders with access to credit would provide scope for altering the power relationships within various value chains, allowing more traders to enter the market without pre-financing, thus introducing competition, and enabling them to sell their products to the individual in the market willing to pay the highest price. Even a basic account could be used to gradually build the capital necessary for work as a self-financing trader. Most importantly, credit could facilitate the development of processing facilities for a variety of products that are now exported with little value added. Opportunities for backward and forward linkages both in the extraction/production and processing of export products could be harnessed by local businesses.

The weak financial structures in the DRC demand a creative approach. Formal banking institutions see the eastern DRC as fundamentally risky and well down their list of priorities. There are branches of formal banks in eastern DRC, but they are not easily accessible to small traders or business people, their use is prohibitively expensive and for cross-border purposes, many people prefer those of neighbouring countries – Rwanda, Uganda, Burundi. There is a large microfinance sector, but it has massive and growing problems and does not adequately cater for cross-border needs. In this specific context, it seems that the practical options are two-fold: the development of innovative financial structures; and improvement and changes in the structures of pre-financing.

There is no doubt that pre-financing can contribute to poverty reduction under some circumstances. The successful Uganda smallholder coffee industry has been built on cooperatives and pre-financing. There is equally no doubt that beneficial pre-financing arrangements are facilitated by supportive regulatory environments where policies are enforced and where producers acquire bargaining power by taking control of value-adding processes and acquiring access to price information, e.g. through a structure of cooperatives.

Some immediate strategic options for finance are:

- Using mobile phone banking to increase access to saving and transactional services;
- Providing incentives to encourage the proliferation and proper regulation of microfinance institutions and producer cooperatives;
- Supporting the long-term development of a formal banking and finance sector, as well as necessary financial architecture.

Some policy options in order to make such strategic moves possible include:

- Decentralising the financial sector in DRC. At present, permission to open banks has to come from the central government in Kinshasa. Devolution of this authority to the provinces would facilitate the process.
- Regional banking. Meetings between Burundian and Congolese stakeholders on the feasibility of a joint cross-border bank based in Uvira (opposite Bujumbura on the Congolese side of the border) have already taken place. Regional institutions such as COMESA's PTA (Preferential Trade Agreement) Bank might consider guarantee funds for such a venture. Regional banks also have a role to play in financing Micro-Finance Initiatives (MFIs) and local businesses. The possibility of re-opening the CEPGL "Banque pour le Developpement Economique des Grands Lacs" (BDGL) should be examined. The legal framework for regional commercial banking requires further study.
- The issue of pre-financing should be considered separately. Breaking the grip of pre-financing monopolies requires a long-term approach including the development of infrastructure, especially roads, that facilitates access to resource-rich areas, the provision of micro-credit and savings alternatives for miners and foresters, and a sustained effort along these lines by development agencies.

3.2 Reconstructing agriculture

Eastern DRC used to be one of the most important food-producing areas of the Congo, but decades of insecurity have to a large extent destroyed the region's agricultural economy. However, agricultural products still contribute up to 50% of recorded exports of North Kivu, and the majority of the population is engaged in farming. Providing the right framework for a revitalisation of agriculture would not just help to alleviate poverty and hunger. It would stabilise areas characterised by mass displacement and armed attacks and strengthen the economy through the expansion of small-scale and cross-border trade.

The memories of what used to work before decline took hold in the 1990s are still vivid among the people of the region. Much of the Kivus' economy was dominated by a highly productive plantation economy consisting of coffee, pyrethrum, quinquina, other cash crops and cattle. This was sustained by extremely unequal access to land and economic power, but it also kept in place what in retrospect appears as a high level of food and job security and agricultural incomes.

This system was destroyed through land conflicts that turned violent, pitting ethnic militia against each other and culminating in the looting of most large-scale agricultural enterprises and the dispersion of their inhabitants. Collapsing agricultural incomes drove large sections of the rural population into cities, which in turn were increasingly unable to meet the food demand of their inhabitants. The situation was made worse by the destruction of the rural road system which fell apart through lack of maintenance, and by the proliferation of armed groups extorting food and money. Food production fell and prices rose, further deepening poverty and increasing displacement.

The remaining small-scale farmers, mostly women without any kind of formal education, are mired in a cycle of deprivation: forced to sell all their product at the moment of harvest, because otherwise it will be stolen, they sell at the lowest point of the agricultural cycle and have to convert their earnings into goods immediately to avoid becoming targets of thieves looking for cash. Many of them have become inhabitants of IDP camps dependent on food handouts.

There is hope for a reversal of this vicious circle. Where minimal security is re-established, farmers tend to return to work fairly quickly in order to survive and food production can increase very fast. However, agricultural inputs, training and better market conditions are needed to convert this into sustainable poverty reduction. Reinvesting the often large profits of traders in rural reconstruction instead of houses and cars in cities as at present would ensure that rural communities see more of the benefits of agriculture.

Even within a context of prolonged instability, "islands of stability" have survived where agriculture continues to function. Finding out whether the particular conditions of these isolated examples are transferable elsewhere and then spreading the word and sharing experiences can help to kick-start recovery in areas where stability is returning, but innovative ideas are lacking.

For this, transferring to younger generations the older generation's memory of the times when the agricultural economy of eastern DRC worked – including the bad aspects as well as the good – can be a useful starting point. A further requirement is to study the state of the remaining agricultural export industries and to invest in their improvement and modernisation. New forms of agricultural inputs and equipment and improved crop seeds and cattle breeds could lower costs, accelerate the revival of production, and facilitate the penetration of export markets.

The revival of agriculture also depends on reforms outside the agricultural sector. Most important is the re-establishment of security to make the return of displaced farmers to their villages possible. But what will they find when they get there? The reconstruction of rural infrastructure such as roads, health and education services are immediate requirements. Needed in the medium term is also a responsive and accessible financial system as well as decentralised local government. Organising farmers into cooperatives can help to reduce producer risks and create safety in numbers. In this way, the vicious circle of decline could turn into a virtuous circle of recovery.

Some immediate strategic options for agriculture are:

- Reinvigorate small-scale agricultural production by facilitating the return of displaced rural populations to their farms and villages, which in turn depends on the right security conditions and investment in infrastructure and services;
- Create and/or restart agricultural producer cooperatives, including at a cross-border level, as a first step towards the reconstruction of commercial agriculture, which can make use of modernised agricultural entrants and techniques in order to earn export revenues at a significant level;
- Restructure and reorganise the coffee sector as eastern DRC's most significant agricultural export earner.

Some policy options in order to make such strategic moves possible include:

- Harmonising the DRC customs and tax regime with that of the East African Community (EAC), which could be done within the COMESA-EAC-SADC tripartite arrangement, and implementing decisions already taken on the reduction of authorised border services;
- Drawing on the experiences of the older generation before they pass on as well as on positive local experiences in order to define a DRC agricultural policy both at the national and the provincial level;
- Investing heavily in transport infrastructure to make remote rural regions more accessible, reinvigorate local markets, lower prices and reduce insecurity.

3.3 Making timber trade sustainable

The timber trade in the Great Lakes Region follows the general pattern of natural resource trade from eastern DRC: large amounts of valuable resources are exported, but the potential benefits to the local populations are not harnessed. Very little processing takes place within the DRC, as most eastern Congolese timber is processed and used in East Africa; the forest communities receive very little rent income, despite the significance of the net value of the timber trade. Most exports are unrecorded, and if they are recorded they are often under-declared.

Unregulated timber exploitation risks destroying valuable environmental resources. Forest management laws and regulations are enforced in the East African countries but not in the DRC, despite the existence of a Forestry Code. Thus the DRC's forests become a source of hardwoods from tree species that are protected elsewhere and of other timber which can be extracted more cheaply than elsewhere in the absence of forest protection. This gives Congolese loggers a competitive advantage compared to those of neighbouring countries, but it is an advantage that tends to be exploited by traders from neighbouring countries who have access to DRC forests and can acquire banned species and cheaper timber, which helps them to maintain their market dominance at home. For example, some Ugandan timber traders pre-finance Congolese loggers with power chainsaws whose use in Uganda is forbidden and which ravage intact forests. Large-scale felling of trees for export to East Africa is reported as far as 200 km inside the DRC in virgin forests.

Timber may be a renewable resource, but non-sustainable forest exploitation risks destroying the resource base. Many local communities in eastern Congo regard trees as a resource without value whose removal creates value by opening up space for farming. This makes them vulnerable to exploitation by traders who know more about the value of the trees. Community education about the value of environmental resources is essential, especially if the DRC government policy of granting community rights to forests is to be implemented. More local rights, more local awareness, plus more local value addition can constitute a virtuous circle of reform which protects forests while at the same time increasing local revenues from its sustainable use.

The lack of any kind of cross-border dialogue about the timber trade is a major obstacle to reform. There is no collaboration between timber markets on either side of the Congolese-Ugandan border and no harmonisation of rules and practices. In 2006, the market for timber passing from the DRC into Uganda was moved from Lubiriha/Kasindi on the Congolese side to Mpondwe on the Ugandan side, and currently there is tension because the Congolese would like to see the market return into the DRC in order not to have to pay taxes before even accessing the market. The two countries are in different time zones, use different languages and legal systems, and do not grant unhindered visa-free travel to each other's citizens.

Intriguingly, patterns similar to those of timber exploitation and trade are to be found in the exploitation and trade of fish, an important source of protein for the populations of the region. All of the Great Lakes are cross-border lakes whose water and fish resources are shared between several countries, and the issue of who has the right to fish where, and according to which rules, is a constant source of tension. For example Congolese fishermen on Lake Edward do not feel bound by Ugandan rules regarding the minimum legal size of fish that may be caught, and traders from DRC and Uganda take advantage of this loophole by buying small fish from Congolese which it would have been illegal for Ugandans to fish, or by Ugandan fishers selling illegal catches to Congolese traders. The Ugandan authorities have a system of fish trade controls to which Congolese have no access, effectively imprisoning them in illegality and giving them at the same time a competitive advantage over their Ugandan colleagues. In the lakes of the Great Lakes, just as in the forests, the lack of joint management has repercussions.

Some immediate strategic options for forestry and fisheries are:

- Developing joint cross-border policy approaches to the management of forest and fish resources so as to close the loophole of eastern DRC as a source of unsustainable supply undercutting properly regulated trade;
- Improving forest management and protection within the DRC in a way that includes local communities, educates them and gives them opportunities for benefiting from the forests around them;
- Creating value-addition and processing opportunities for timber within the DRC to harness export potential and make trees appear as a valuable resource whose renewal brings benefits.

Some policy options in order to make such strategic moves possible include:

- Certification programmes for timber that are equally applied in the DRC and in neighbouring countries, so that there can be joint timber markets on the border working to a unique set of rules which cuts out unscrupulous forms of pre-financing and exploitation;
- Implementation, with monitoring, of the DRC's Forestry Code and the still-pending legal reforms in this sector, including community rights;
- Local forestry management plans, including reforestation programmes and a regional ban on power saws.

3.4 Addressing the regional energy deficit

The lack of reliable and accessible energy supplies in the entire Great Lakes Region is one of the biggest single impediments to trade and poverty reduction in the region. In the DRC, electricity coverage is 6%; in eastern DRC specifically it is 2%. In Rwanda it is 10%, in Burundi, 2%. Conversely, over 90% of energy consumption in the region consists of charcoal and firewood. Diesel generators as another source of electricity are hugely expensive to install and to run, as until now are most forms of alternative energy.

At the same time, the Great Lakes Region only uses 2.5% of its potential energy resources; hydroelectric power through small dams or water mills, geothermal energy, methane gas in Lake Kivu, to take but a few. Existing installations are often working below capacity due to lack of maintenance and investment. Better interconnection of national electricity networks would help to reduce the energy deficit in some border areas.

Within eastern Congo, a whole range of possible small-scale energy projects can be identified which would go a long way towards universal grid coverage. The main component of this is a network of small dams and hydroelectric power stations. Detailed plans already exist for some of these and could be taken to investors. Many projects either used to exist decades ago and have fallen into disuse, or had already reached the planning stage and were subsequently abandoned with the onset of conflict. These projects and plans are hardly known outside eastern Congolese specialist circles.

At the same time, a range of larger-scale regional energy investment projects has already been agreed or is even beginning to be implemented. One is the expansion of the Ruzizi dams (on the river forming eastern Congo's border to Burundi and Rwanda between Lakes Tanganyika and Kivu) which power eastern DRC, Burundi and Rwanda. Another is the use of the methane gas inside Lake Kivu, for which there is an agreement between the governments of Rwanda and the DRC, but where to date only Rwanda has begun any work – a pilot plant in the lake which already powers the Rwandan border town of Gisenyi. Further large-scale hydroelectric power projects exist in Uganda and Tanzania. The oil reserves beneath Lake Albert on the border between Uganda and the DRC, for which exploration has begun on the Ugandan but not on the Congolese side, offer a further potential energy source.

Achieving convergence between local energy demand and large-scale cross-border projects is an institutional challenge. Existing cross-border institutions such as Sinelac, which runs the Ruzizi dams, and CEPGL are not fully functional. The DRC state electricity company SNEL, which still has a monopoly on energy distribution, has not completed its own process of internal reform.

Even after such reforms are carried out, ways of integrating local needs into regional planning will still have to be found. Their effectiveness is enhanced if they include ways of mobilising locally available private capital towards financing capital-intensive energy projects. This means abandoning state monopolies on energy, which are fictitious anyway given the dependence of most of the population on fuels such as wood and diesel, and opening up the sector.

Increased reliable and cheap energy supplies in the Great Lakes Region will have additional beneficial effects. Imports of costly and environmentally unfriendly petroleum products for electricity generation would diminish, as would the use of firewood and charcoal. On balance, household expenditure on energy would be reduced. Industrial applications for processing natural resources would become possible. All this would, in turn, stimulate other sectors of the economy.

At present, the exploitation of Lake Kivu's methane deposits for electricity generation appears as the most cost-effective and practical short-term priority. The pilot methane gas plant on Lake Kivu, which extracts methane gas from deep water and transfers it to an onshore gas-fired power station near Gisenyi (Rwanda), represents a technological model whose application could be replicated at other sites in the lake. This requires cross-border cooperation between the DRC and Rwandan governments. Together they can decide how the joint use of these resources can be managed both in terms of infrastructure and in terms of financing. Cross-border cooperation is also needed between energy, engineering and environmental specialists from both sides in order to maintain the highest possible standards and minimise environmental and climate risk.

Some immediate strategic options for energy policy are:

- Maximising cross-border cooperation in the management and exploitation of joint energy reserves and the planning of energy investments;
- Orienting energy development towards local demand and local supply possibilities in order to effectively address the energy deficit of the population;
- Reducing dependence on environmentally unfriendly resources, by making their use less attractive, and facilitating local natural resource processing and other forms of industrial production.

Some policy options in order to make such strategic moves possible include:

- Make existing regional bodies fully operational, work with them and devise new ones for new energy sources such as Lake Kivu methane or Lake Albert oil;
- Update and operationalise existing ideas for the optimal use of local energy production sites in order to attract investment;
- Open up the energy sector and facilitate community and cross-border input into planning, procedures and financing.

Developing policy options together with local stakeholders at cross-border meetings has already had one immediate impact: key actors from central and local government, from the private sector and the local communities from both sides of eastern Congo's borders with neighbouring countries have come together, many of them for the first time, and discussed common solutions to common problems.

Additionally, the roll-out of COMESA's Simplified Trading Regime (STR) at the cross-border meetings has helped to initiate real trade reform at the practical level, with strong networks of traders and officials emerging who are willing and able to work together in order to reduce obstacles to trade. The trade fairs which accompanied these events made this process visible to the public and also presented new opportunities for traders themselves.

This section summarises some of the key impacts of these events.[1]

4.1 Cross-border dialogue, information and training

Cross-border dialogue and joint work on shared questions not only helps to find the best answers, but also reduces mutual mistrust built of ignorance and a history of confrontation. For example, letting Congolese stakeholders from North and South Kivu and from Kinshasa visit the Rwandan methane gas pilot plant in Lake Kivu serves to break down many of the common misperceptions, misunderstandings and myths amongst Congolese as to what Rwanda is doing with this shared resource. Or when officials and traders from both sides of a border jointly visit a border post and speak with the officials there, opportunities arise to learn about different perspectives on local trade dynamics and the solutions needed to address the challenges faced by traders. Furthermore, it enables national government officials to see for themseves what happens at the local level.

For cross-border trade to serve as an entry point for dialogue about stabilisation, economic recovery and peacebuilding, multiple forms of exclusion, discrimination and inequalities have to be addressed. For example, Congolese and Ugandan traders working in each other's countries show an alarmingly high level of mutual stereotyping and mistrust, but when put together to talk about specific problems, they engage willingly and freely and discover common challenges such as non-tariff barriers or unauthorised demands by security agencies. Debate on cross-border trade and the issues faced by traders serves to reveal the divisions and perceptions that exist in society more broadly, as well as those specific to cross-border commerce and economic activity.

The main issue is lack of information, both between local communities and between administrations and policy-makers. The way forward is to continue regular cross-border discussions at different levels, from local chambers of commerce to regional policymaking bodies. Civil society groups can also play a constructive role in such a process by convening traders and government officials, facilitating dialogue and disseminating its impact, ensuring that critical issues are on the agenda, and that their own voice, so often excluded, is heard.

In this spirit, COMESA training sessions for customs officials in the DRC have helped to build capacity, and in January 2009, the first of a series of planned information desks on applicable trade rules was opened at the border post of Kasumbalesa (Zambia) on the main trading route from Katanga to Southern Africa. This will be replicated

[1] Full reports of the cross-border meetings in Kasumbalesa (Zambia), Bujumbura (Burundi), Goma (DR Congo), Kasese (Uganda) and Gisenyi (Rwanda) are available as separate Annexes to this report in both English and French. All documents are also available online at **www.dfid.gov.uk/mdg/aid/trading-for-peace.asp**. At Gisenyi, there was no STR meeting and no trade fair as the DRC-Rwanda border was already covered at the earlier Goma meeting.

at other border posts, and in the long-term it should be a step towards the goal of one-stop border crossings, which reduce bureaucracy and opportunities for mis-recording and fraud.

4.2 The Simplified Trade Regime

Broad dissemination and uptake of the Simplified Trade Regime (STR) of COMESA is another key impact of Trading for Peace. Its principle is that goods worth less than US$ 500 per consignment and which feature on an agreed "common list" of products are exempt from customs duties or fees at the border.

The aim is to increase recorded and legitimate small-scale cross-border trade and remove the scope for opportunistic forms of corruption that have been found to inhibit trade and lead to traders conducting business outside official channels.

At each of the thematic meetings in the DRC border areas, and also at an earlier meeting in Kasumbalesa on the border between the DRC and Zambia, a forum for traders and officials was organised in order to introduce the STR, discuss its modalities of application and set up focal points which could then draw up the common list of agreed duty-free products and undertake other follow-up to ensure the STR is implemented. In each of these cases, the STR discussions have succeeded in bringing traders, officials and institutions together with a shared agenda of making the new regime work, and using the momentum created by the establishment of the STR to further positively shape the future of trade in the Great Lakes Region. The challenge remains to clear the remaining hurdles for the full passage of the STR into national law in every country concerned.

The discussions at the **Kasumbalesa Forum** enabled COMESA to finalise a booklet (in Kiswahili, French and English) about the STR which has been widely distributed since. The booklet describes the ten steps traders need to take to comply with customs regulations and cross the border quickly when exporting or importing goods valued at US$ 500 or less per batch.

At the **Bujumbura Forum**, participants showed great interest in the details of the STR and the related paperwork designed to facilitate small trade across borders in the region. Traders vigorously discussed the regime, the changes that it represents and how it could be of benefit to them.

At the **Goma Forum**, participants prepared a detailed action plan and developed a list of goods that (subject to agreement by the respective governments) the DRC and Rwanda would put forward as goods to be covered by the STR. Participants discussed how the STR can be implemented in practice given a context where the official rules of the game do not matter as much as the differential way in which they are applied on the ground.

At the **Kasese Forum**, the STR launch provided participants with an opportunity to speak with officials on both sides of the border about their perspectives on local trade dynamics and their efforts to ensure that trade flows smoothly across the border. Traders highlighted the high cost of visas, irregularities and mistreatment at customs, the multiplicity of taxes, physical insecurity in the DRC, the absence of enforceable laws and regulations, overestimation the value of goods (with the attendant application of higher taxes), and other obstacles with which the STR could help. Revenues are taxed several times at several points and due to lack of information traders are unsure what they should legitimately pay. In response to such issues, several participants suggested creating border committees that can provide information.

4.3 Trade Fairs

Each trade forum included a cross-border trade fair, during which traders from either side of the border between their respective countries were able to showcase their goods, engage in trade and discuss the issues that affect them.

The Bujumbura Trade Fair brought together 60 traders, including those at the cross-border meeting from the DRC and Burundi plus others from the central market in Bujumbura and from the border towns of Gatumba (Burundi) and Uvira (DRC). On sale among other things were clothes, beauty products, fresh and dry foods, timber from Congo, beer and soft drinks, various minerals and traditional medicines. There was a Congolese potter who said he had sold a pot for the first time ever outside his own village. He was eager to return to his village and tell others about his experience.

The Goma Trade Fair brought together around 100 Congolese and Rwandan traders. Almost all of the products on sale were locally produced and many demonstrated incredible innovation. The products included: colourful hats, bags and decorative chickens woven from strips of plastic bags, fresh food products (including honey, bread, jams, juice and cheese), agricultural produce (beans, corn, flour and manioc), wooden furniture and cloth dolls and bags. A local association had set up a restaurant to cater for traders and visitors. On display were also bricks, plastic flowers, elaborate paper hats, woven tapestries depicting (respectively) the invasion of North Kivu by Interahamwe militia and the DRC's dark colonial history, and a stove operated by normal AA-size batteries or simply a mobile phone charger lit with scraps of coal. Congolese government delegates from Kinshasa were impressed by the variety and quality of the produce on display.

The Kasese Trade Fair held at Bwera brought together around 60 traders from the DRC and Uganda. The products displayed at the fair included Kitenge cloth, padlocks, soft drinks, cosmetics, fruits, packaged products and local foodstuffs. There were also logs of timber on display as well as solar equipment.

5. The next steps: Vision and outlook

Trading for Peace will in the coming years build on its achievements and findings to turn the reform agenda outlined above into reality. But it cannot implement the agenda itself; it can only help to mobilise and sustain the initiatives and structures which are required on the ground in order to take it forward.

To capitalise on momentum created thus far, different actors will need to work at different levels. Local partners need to play a greater role, as they are best able to facilitate dialogue processes, substantively address conflicts between groups and build local capacity to advocate on local issues of concern. Locally led dialogue initiatives will help to bring in the informal sector and a whole range of private sector players, as well as civil society groups. They will also ensure that initiatives undertaken as part of Trading for Peace are grounded in a detailed appreciation of local conflict dynamics at key border points, helping to maximise peacebuilding strategic content and benefits.

This will serve to strengthen and complement initiatives by COMESA as one of the pre-eminent regional institutions responsible for trade issues, as well as interested development partners. Lessons from work to date highlight the importance of COMESA's role as a driver of reform at the governmental level and more generally the need for consistent dialogue with national and local government in order to initiate and sustain grounded and locally owned reform programmes.

The situation on the ground will keep changing, and knowledge gaps concerning the nature of trade and conflict will remain. Ongoing investigation of these dynamics at different points in the region will be required to inform policy-makers at all levels, from local to global, and ensure that interventions for positive change are based on the reality on the ground.

We therefore see the following as a way forward:

- Research – exploring the challenges of regional trade reconstruction, and peacebuilding in collaboration with the communities and actors concerned, with a view to mobilising people on the ground to identify and address their specific challenges;
- Cross-border networking – bringing people together across the borders of eastern DRC, Burundi, Rwanda and Uganda in order to find common solutions to common problems, by combining different interests and perspectives into joint cross-border approaches and providing space for confidence-building and the discussion of opposed or shared interests and perspectives;
- Institutional capacity building – strengthening regional organisations such as COMESA so that they can effectively ensure the implementation of trade reforms and other cross-border political commitments at the governmental level;
- Better investment climate in border areas and for cross-border enterprises – helping to bridge the gaps in local roads, energy supplies and agricultural infrastructure.

These are clearly interdependent. Over the next three years, Trading for Peace hopes to progress along all axes of the following matrix, harnessing local initiative and ideas as far as possible, and linking them into the regional public policy debate in order to lay the groundwork for real reform.

Nexus of Action

	Cross-border	National
Governmental	Better regional cooperation and communication, removal of trade barriers, harmonisation of trade rules, common plans for regional infrastructure and development.	Implementation of regional agreements, further reform of tax & customs, incentives for local trade and investment especially in border areas and transport corridors.
Non-governmental	Civil society and private sector networks for dialogue and collaboration, confidence-building across borders, common approaches towards public policy and regional development projects.	Research into local needs and interests, development of a voice towards state policy, dialogue between formal and informal sectors, clear articulation of community interests, private sector investment.

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